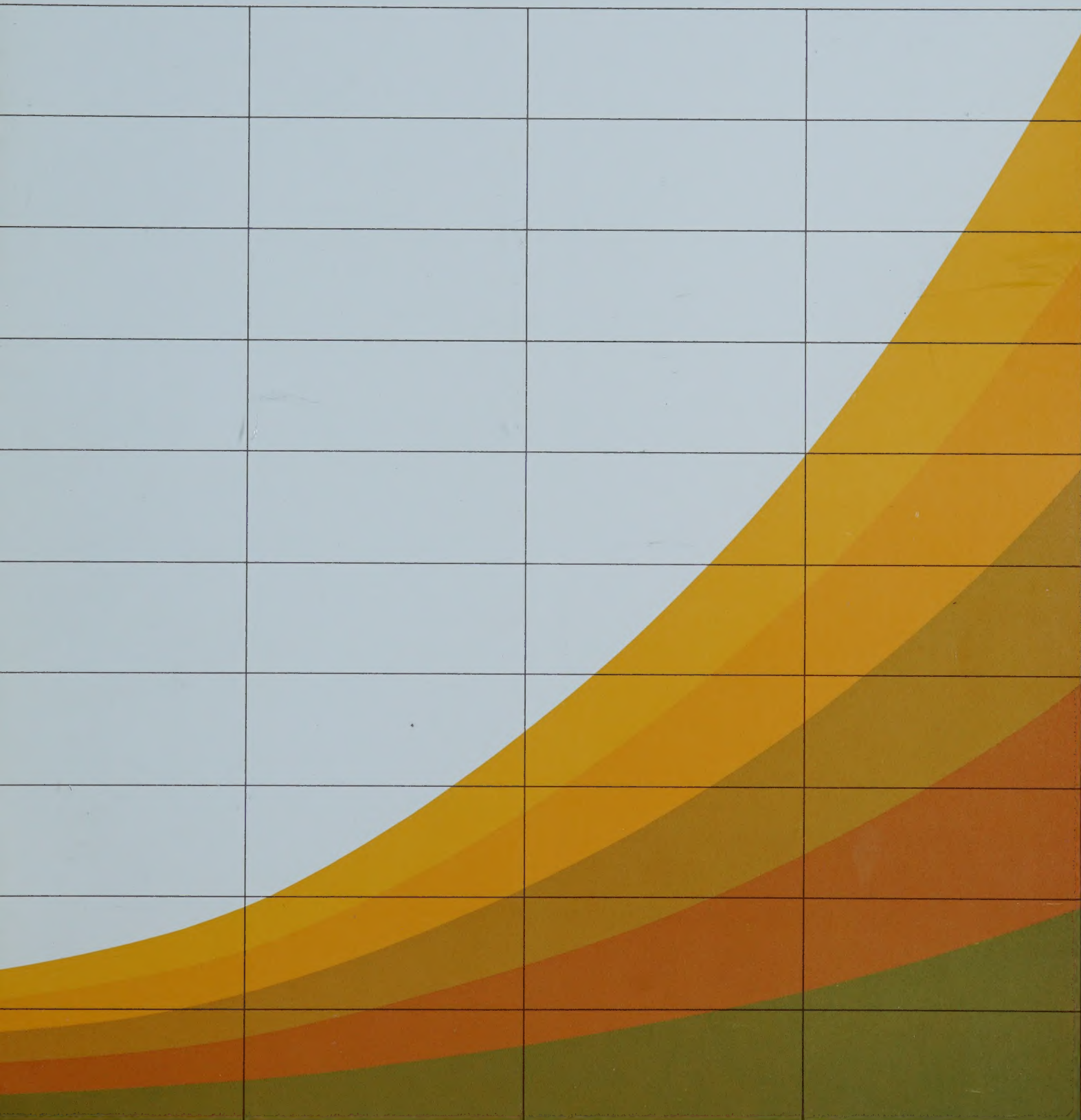




AR46

**THE
FIDELITY TRUST
COMPANY
ANNUAL REPORT
1975**



HIGHLIGHTS

	1975	1974	1973	1972	1971
Total Assets under Administration	\$300,740,283	\$154,214,113	\$95,214,055	\$50,095,400	\$26,569,403
Total Company & Guaranteed Account...	86,575,449	52,472,415	36,678,503	27,915,376	22,857,801
Gross Income.....	10,014,176	6,205,344	4,272,867	3,112,603	2,309,776
Interest Paid to Depositors	5,220,974	3,220,578	1,940,251	1,506,815	1,302,495
Net Income Prior to Tax.....	2,023,446	1,351,779	1,288,966	836,000	427,175
Income Tax.....	1,011,000	709,000	651,000	400,500	209,427
Net Income for Year.....	1,012,446	642,779	637,966	435,500	217,748
Capital and Reserves.....	4,724,503	3,265,237	2,617,360	1,860,853	1,543,890
Earnings per Share	61¢	43¢	47¢	35¢	18¢
Dividends Paid	12¢	10¢	7¢	6¢	5¢
Number of Shareholders at Year End.....	417	397	348	323	263

REPORT TO SHAREHOLDERS

1975 was a year of exceptional growth for your Company in terms of deposit volume but more particularly in terms of the Company's involvement in the secondary market. Since locating in Toronto two years ago the Company has gained access to expanded capital markets coincident with an increasing interest on the part of institutional investors in government insured mortgages.

Financial Results

The Balance Sheet indicates a growth in total assets from \$52,472,415 in 1974 to \$86,575,449 in 1975 primarily accounted for by mortgages totalling \$69,402,961. Total assets under administration at December 31, 1975 amounted to \$300,740,283 representing a 95% increase since the previous year. Deposits (including savings and chequing accounts) increased from \$7,610,768 in 1974 to \$17,021,695 in 1975. Guaranteed Investment Certificates grew by 53.5% during the year to \$63,375,564 at December 31, 1975. The growth in total deposits is largely attributable to the addition of new branches in late 1974 and early 1975 and continuing customer confidence in the Company.

Net income for the year also showed a substantial increase from \$642,779 in 1974 to \$1,012,446 in 1975.

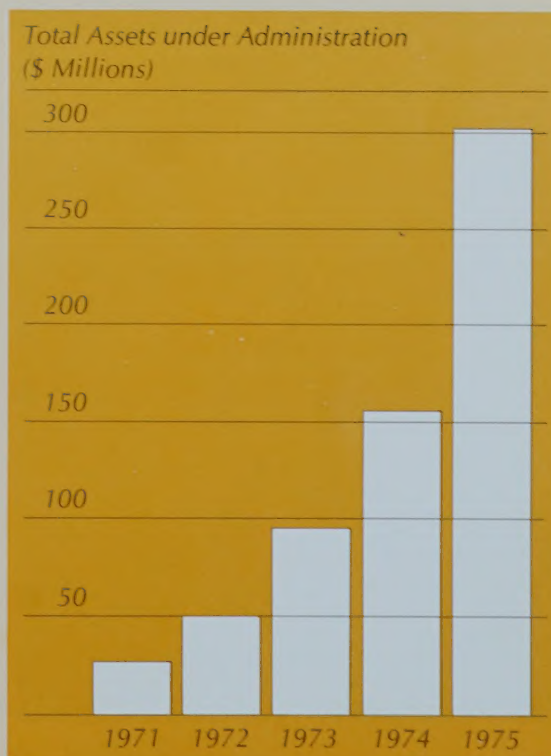
Capital Stock and Dividends

On March 3, 1975, the Company offered shareholders an opportunity to purchase one additional share for each two shares then presently held at a price of \$2.50 per share. These to be payable to the extent of 25¢ per share on or before March 31, 1975 with the balance to be called from time to time by the Board of Directors of the Company in amounts not to exceed 25¢ per share. The offering was fully subscribed and, as at December 31, 1975, the total capital stock of the Company consisted of 2,317,207 shares of which 1,575,031 were fully paid and 742,176 were partially paid on which \$1,298,808 remains to be paid. Since the original offering two additional calls have been made and it is anticipated that approximately three more calls will be made in 1976.

During the year your Company paid dividends of \$185,377 or 12¢ per share and it is anticipated that the same dividend will be payable in 1976 as a result of the Anti-Inflation Board ruling. Shareholders holding partially paid shares will participate in dividends in proportion to the percentage of their partially paid shares which have been paid at the date of record.

Borrowing Limits

The amount which the Company may receive by way of deposits is presently limited to 20 times the excess of assets over liabilities. The Company is seeking approval under the Act for an increase in its deposit limit to greater than 20 times the excess of assets over liabilities. In order to obtain approval for this increase



the Company must satisfy the Minister of Finance that its financial condition complies with strict standards established by Regulations issued under The Trust Companies Act. Once a limit greater than 20 times is approved, the Company may be required to maintain outstanding subordinated notes issued by the Company and having more than one year to maturity, in an amount specified by the Minister of Finance.

In anticipation of this approval, the Company expects to issue in April of 1976 \$1,000,000 of 11¾% Subordinated Notes, Series A for a term of seven years.

Secondary Mortgage Market

The Company's activities in the secondary mortgage market have accounted for the major part of its growth since 1970 and are reflected in the rapid growth of assets under administration from about \$19.4 million at December 31, 1970 to about \$214.2 million at December 31, 1975. A detailed account of the Company's involvement in the secondary market appears later in this report. The increased revenue from these activities is reflected in fees and commissions and other operating income as shown in the statement of income.

The Company is an approved lender for the purpose of making mortgage loans under the National Housing Act. NHA mortgages are insured against loss of principal, accrued interest and costs of foreclosure by Central Mortgage and Housing Corporation, an agency of the Government of Canada. Under the National Housing Act, an approved lender is authorized to sell insured loans together with the security taken and to administer insured loans on behalf of investors. An approved lender must continue to administer the loans in order for the insurance to remain in force. The Company retains title to the mortgages and continues to service the loans as trustee for the purchasers in return for an annual administration fee. All mortgages sold by the Company under this programme are written for terms of five years and most have an amortization period of 25 years.

The present policy of the Company is, generally, to sell mortgages in packages of not less than \$40,000 principal amount. These mortgage packages have proved attractive to investors on account of the relatively high yield, the monthly payments, the high degree of security and the short term which they provide. To facilitate sales, the Company utilizes the services of investment dealers on a commission basis.

The Company includes profits on the sale of mortgages in its statement of income under "other operating income". In addition, the Company receives minor initiation fees and continuing administration fees on all mortgages sold under this programme. Specialization in this residential mortgage market has resulted in revenues from these activities being considerable in relation to the other operating revenues of the Company.

Other Services

Other services offered by your Company also continue to expand. New, full service offices were opened in Calgary and Regina this year and your Company has recently moved into new head office quarters located at the corner of Portage Avenue and Main Street in Winnipeg. The strategic Toronto office location at 350 Bay Street has been most successful and plans are presently under way to occupy at least one more floor at the same location for the Executive Offices of the Company. A mortgage lending agency also was opened in Halifax, Nova Scotia.

We regret that Mr. Donald H. Bodel has resigned to pursue other business endeavors. We appreciate the contribution which he made to our growth and to our present standing in the industry. We wish him well.

Mr. James E. Perkins retired from the Board of Directors because of age, but we are delighted that he continues as our valued advisor in the position of Secretary-Treasurer.

We have begun a complete review of the organizational structure of the Company and will implement changes in 1976 where changes are required. Existing systems are being streamlined and we anticipate a healthy increase in mortgage loans and profits for the year.

1976 will be an interesting, though potentially difficult, year for Canadians. In the short run, incomes and prices must be controlled. However, when controls in excess of 12 months are introduced, then we are entering an extremely delicate area. Democracy coupled with a free market, has proved to be one of the most effective systems yet devised by mankind. When government becomes too big, and bureaucracy too powerful, then we must have grave concerns about the future of the system. Inflation must, and ultimately will, be beaten. My concern is how it will be beaten and for those who will suffer in the process. Allowed to function efficiently and without interference, the free market system offers the best solution to our problems. It also would be the least painful cure.

There is some indication that governments within the Western world are coming to this realization. I am encouraged that our government will recognize this before it is too late.

I would like to take this opportunity to thank the management and staff for their fine performance during the past year. I would also like to welcome the many good people who have recently joined our staff in helping to build an outstanding Canadian financial institution.

N.C.W. WOOD

President and Chief Executive Officer



N.C.W. WOOD

BALANCE SHEET

DECEMBER 31, 1975

(With comparative figures for 1974)

ASSETS

1975

1974

CASH AND CERTIFICATES OF DEPOSIT

Cash	\$ 2,747,589	\$ 641,201
Trust company and bank deposit receipts	5,654,515	2,126,731
Short term corporation notes	599,598	3,977,137
	<u>9,001,702</u>	<u>6,745,069</u>

INVESTMENT SECURITIES (note 2)

6,471,548 6,674,202

LOANS AND ADVANCES

Mortgages, including accrued interest	69,402,961	37,948,972
Collateral loans	101,104	61,169
Accounts receivable	366,522	73,174
Receivable from estates, trusts and agencies	456,366	277,069
	<u>70,326,953</u>	<u>38,360,384</u>

INCOME PROPERTY, at cost less accumulated depreciation of \$52,451 (1974 - \$43,496)

548,577 557,532

OTHER ASSETS

Furniture and leaseholds, at cost less accumulated depreciation and amortization of \$119,173 (1974 - \$101,594)	209,797	111,723
Prepaid expenses and deferred charges	16,871	23,504
Mineral rights, at nominal value	1	1
	<u>226,669</u>	<u>135,228</u>
	<u>\$86,575,449</u>	<u>\$52,472,415</u>

We hereby certify that to the best of our knowledge and belief the balance sheet as at December 31, 1975 and the statements of income, contributed surplus, general reserve and retained earnings for the year then ended are correct and show truly and clearly the financial condition of the Company's affairs and the results of its operations.

LIABILITIES

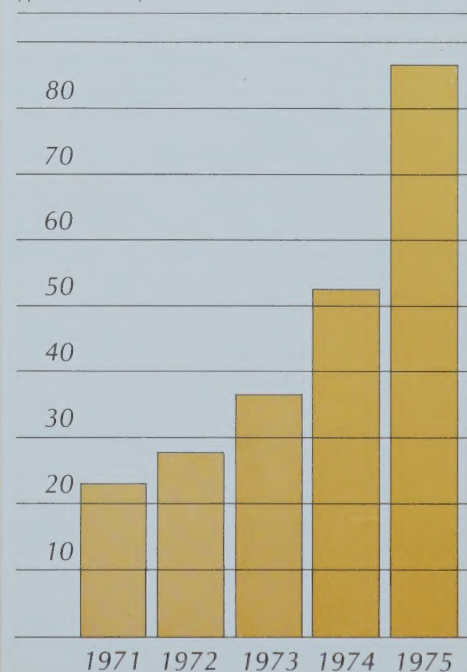
	1975	1974
GUARANTEED TRUST ACCOUNT (note 3)		
Deposits	\$17,021,695	\$ 7,610,768
Guaranteed investment certificates	63,375,564	41,291,354
	<u>80,397,259</u>	<u>48,902,122</u>
OTHER LIABILITIES		
Bank loan	700,000	
Accounts payable and accrued liabilities	315,185	182,481
Income taxes payable	382,002	18,075
	<u>1,397,187</u>	<u>200,556</u>
DEFERRED INCOME TAXES	56,500	104,500
	<u>81,850,946</u>	<u>49,207,178</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL (note 4)		
Authorized		
3,000,000 shares, par value \$1 each		
Issued		
2,317,207 shares (1974 - 1,544,805)	2,131,663	1,544,805
CONTRIBUTED SURPLUS	139,621	94,282
GENERAL RESERVE	1,000,000	1,000,000
RETAINED EARNINGS	1,453,219	626,150
	<u>4,724,503</u>	<u>3,265,237</u>
	<u>\$86,575,449</u>	<u>\$52,472,415</u>

N.C.W. WOOD, *President*
A.K. STEPHENS, *Director*
F.L. ERNST, *Director*

Total Company & Guaranteed Account
(\$ Millions)



STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1975
(With comparative figures for 1974)

	1975	1974
REVENUE		
Interest from deposit receipts, notes and loans	\$ 7,391,071	\$ 4,329,319
Interest and dividends from investment securities	462,558	377,883
Fees and commissions	1,308,364	1,009,146
Other operating income	794,651	465,274
Gain on sale of investment securities	57,532	23,722
	<u>10,014,176</u>	<u>6,205,344</u>
EXPENSE		
Interest on guaranteed trust account	5,420,287	3,288,798
Salaries, commissions and staff benefits	985,256	757,385
Other operating expenses including depreciation and amortization of \$43,388 (1974 - \$26,756)	1,380,187	807,382
Provision for mortgage differences (note 7)	205,000	
	<u>7,990,730</u>	<u>4,853,565</u>
Income before income taxes	2,023,446	1,351,779
Income taxes — current	1,059,000	665,000
— deferred	(48,000)	44,000
	<u>1,011,000</u>	<u>709,000</u>
Net income	<u>\$ 1,012,446</u>	<u>\$ 642,779</u>
Earnings per share	<u>\$0.61</u>	<u>\$0.43</u>

STATEMENT OF CONTRIBUTED SURPLUS, GENERAL RESERVE AND RETAINED EARNINGS.

FOR THE YEAR ENDED DECEMBER 31, 1975

(With comparative figures for 1974)

1975

1974

STATEMENT OF CONTRIBUTED SURPLUS

Balance, beginning of year	\$ 94,282	\$ 62,366
Premium on issue of shares	45,339	31,916
Balance, end of year	<u>\$ 139,621</u>	<u>\$ 94,282</u>

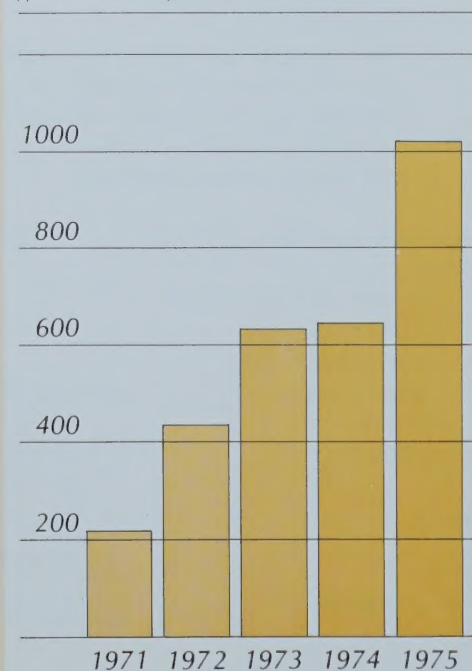
STATEMENT OF GENERAL RESERVE

Balance, beginning of year	\$ 1,000,000	\$ 600,000
Transfer from retained earnings		400,000
Balance, end of year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

STATEMENT OF RETAINED EARNINGS

Balance, beginning of year	\$ 626,150	\$ 537,851
Net income	1,012,446	642,779
	1,638,596	1,180,630
Dividends paid	185,377	154,480
Transfer to general reserve		400,000
	185,377	554,480
Balance, end of year	<u>\$ 1,453,219</u>	<u>\$ 626,150</u>

Net Income for Year
(\$ Thousands)



NOTES TO FINANCIAL STATEMENTS

1. Significant accounting policies

The financial statements comply with all disclosure requirements of the Trust Companies Act (Canada) and follow accounting policies common to the trust industry. The significant policies are as follows:

(a) Investments

Investments in bonds are stated at cost plus accrued interest.

Loans secured by mortgages are stated at cost.

Income is recorded on an accrual basis.

Discounts or premiums on the purchase of bonds are included in the statement of income upon sale or maturity.

(b) Revenue from fees and commissions

The Company follows accrual accounting for all corporate services it provides. Accrual accounting is also followed for most fees arising from estate and agency business.

(c) Depreciation and amortization

The depreciable part of the Company's income producing property is written off over its useful life on the straight-line basis at 3% per annum. It is the Company's policy to provide for depreciation by the declining-balance method at an annual rate of 20% for fixtures and equipment. Amortization of leasehold improvements is computed on a straight-line basis over the terms of the respective leases.

(d) Income taxes

The Company accounts for income taxes by the tax allocation method under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes.

2. Investment securities

	1975	1974
Bonds		
Canadian and provincial governments and government guaranteed	\$4,768,465	\$4,949,665
Municipal	45,548	46,762
Corporate	1,458,141	1,460,878
	6,272,154	6,457,305
Stocks	199,394	216,897
	\$6,471,548	\$6,674,202
Market values	\$5,940,277	\$6,194,532

3. Assets held for guaranteed trust account

Included in total assets are cash, securities, mortgages and other loans of \$80,397,259 (1974-\$48,902,122) held for the guaranteed trust account.

4. Share capital

Increases in the issued share capital of the Company in 1975 were as follows:

	Number of Shares	Allocated as to: Share Capital	Contributed Surplus
Partly paid	742,176	\$742,176	\$1,113,264
Less amounts subject to call		185,544	1,113,264
	742,176	556,632	—
Fully paid	30,226	30,226	45,339
	772,402	\$586,858	\$ 45,339

5. Long-term leases

The Company rents premises under long-term leases which expire at various dates to October 1, 1984. The basic annual rentals payable under these leases for the next years are as follows:

1976	\$172,400	1979	\$146,740
1977	\$169,431	1980	\$ 69,796
1978	\$158,408		

6. Anti-Inflation Act

The Company is subject to the Anti-Inflation Act enacted by the Government of Canada effective on October 14, 1975, as it applies to the payment of dividends. Under the legislation dividend payments during the twelve months ending October 13, 1976 are restricted to twelve cents per share.

7. Mortgage loans

The Company experienced unprecedented growth during 1975 and the processing of accounting information did not keep pace with the requirements. As a result the mortgage loan balances were not entirely reconciled with the accounting records. However the Company has made a charge against operations of \$205,000 to provide for any loss which may result from such unreconciled differences.

To the Shareholders,
The Fidelity Trust Company.

We have examined the balance sheet of The Fidelity Trust Company as at December 31, 1975 and the statements of income, contributed surplus, general reserve and retained earnings for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1975 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

JARRETT GOOLD & ELLIOTT

Chartered Accountants

*Toronto, Ontario,
March 1, 1976*

Secondary Mortgage Market

The secondary market for mortgages involves granting mortgage loans to borrowers by a lending institution whose primary purpose is to lend money by way of mortgage security. The loans are subsequently resold to a second lender or investor who does not normally have the facilities to make direct loans or who wishes to invest in mortgage loans at arm's length.

Prior to 1969, this market revolved around the activities of Central Mortgage and Housing Corporation (CMHC), a Crown corporation, who made direct mortgage loans for long periods of time to stimulate the housing industry in Canada, and periodically offered blocks of these mortgages by way of auction to the investment community either with continued servicing or by the transfer of servicing to an approved lender. An approved lender is a lender authorized by CMHC to lend money with mortgage insurance provided by CMHC. Effectively, this represents a Government guarantee of repayment in the event of default by the borrower.

The problem here was twofold. Firstly, the mortgage loan had no term; it ran until it was amortized or paid off at the initial rate of interest. Secondly, the borrower had the privilege of paying off the loan at any time after five years. An investor was therefore in the unfortunate position of lending money at a fixed rate of interest over a very long period of time, which the borrower could terminate whenever he wished.

During the unsettled financial period of the 1960's the insured CMHC mortgage, although imminently secure, became unattractive to investors who found the classic framework developing for borrowing short and lending long. Many institutions today are still heavily weighted down with these mortgage loans at 5% and 6% that run until the 80's and 90's, against which they have had to borrow funds for relatively short periods of time at interest rates as high as 10% or 11%.

By 1969, it became evident that CMHC must provide some incentive if it wished to attract the private institutions back into the insured mortgage field. Several major changes were made. The five year term was introduced, enabling the lender to alter the rate of interest every five years or match maturities against borrowed funds for similar periods. This latter practice had been common procedure for residential mortgage lending in the conventional field for many years. In addition, CMHC introduced the existing house loan, offering to insure lenders in this field, on loans made to would-be home buyers, for 100% of principal on up to 95% of the appraised value, thus removing the legal requirement for institutions who by law could previously lend up to 75% only.

These changes produced the necessary impact. More lenders became attracted to the advantages of the insured loan.

The secondary market took on a new perspective. CMHC insured mortgage loans offered many advantages. Short-term, high yield, and maximum security. During this same period, the managers of investment and pension funds were looking for an alternative investment due to the poor performance of the stock market and the lack of protection from inflation in the long-term bond market.

Some of the larger financial institutions found that they could generate liquidity very rapidly by the simple expedient of offering a block of insured mortgages on the market, and to a large extent today's market exists because of these factors.

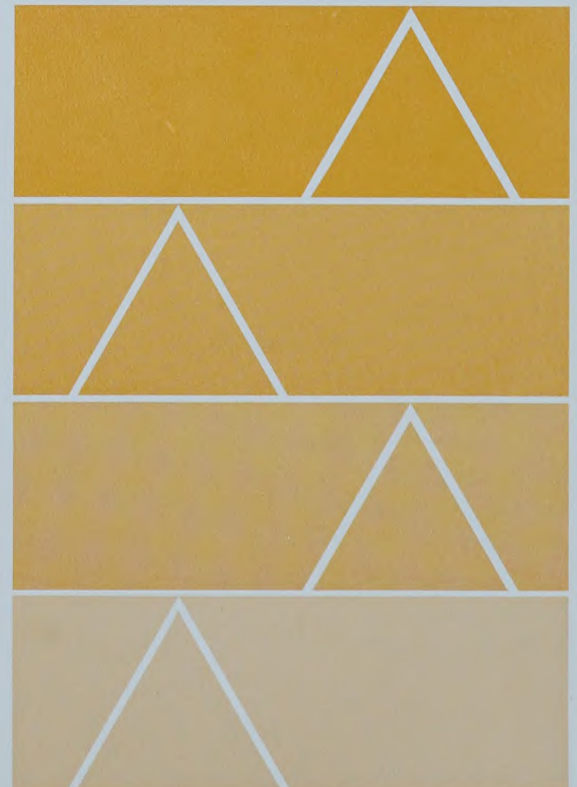
The 1960's could perhaps be regarded as a Renaissance period for the financial community in Canada. The emphasis was on size, both in terms of assets and diversity of services; the supermarket approach to money and banking was introduced.

Your management concluded that in a future dominated by size and numbers, there would be considerable merit and profit in a more specialized approach.

In 1969, a fundamental decision was made to specialize in the secondary market. The new branches that have since been opened specialize in providing an efficient mortgage service to both home buyers and contractors in the community. Once these loans have been completed by your company, most are packaged and sold into the secondary market. Fidelity utilizes the services of investment dealers to distribute these packages, and today we have hundreds of sales people in the field handling them. Sales are made from \$40,000 up to several million dollars at a time, in ever increasing numbers both nationally and on an international scale. Sales volumes have been in excess of \$18 million in recent months.

We are constantly investigating new and better ways to streamline this market. The immense volume has created the need for a completely automated accounting system. Over the last twelve months a comprehensive survey has been made and a new system that we believe will be the finest in the industry will shortly be introduced. The introduction of such a system has meant centralization of both the accounting function and your Company's Executive Offices. Due to its proximity to the financial market, the Toronto office will incorporate these functions. Winnipeg remains your Company's head office.

Your Company recently introduced the "Assured Payment Plan" where an investor who has invested up to \$200,000 can be assured of a monthly cheque for his principal and interest, regardless of a late payment in his mortgage package. This is not a guarantee by Fidelity, but merely a convenience intended to make our packages more marketable. We are now offering mortgage packages insured by private insurers, and we expect that this market will continue to expand in the future.



DIRECTORS

- *JOHN S. McMAHON
Chairman of the board
- *ANDREW K. STEPHENS
Vice Chairman
- *NEIL C.W. WOOD
President and Chief Executive Officer
- *RICHARD W. SMITH
Vice-President
- *EDMUND B. OSLER
Vice-President
- *ROBERT H. LINDSAY
Assistant Treasurer and Controller
- J. MALCOLM BILLINGSLEY
BRUCE H. CODVILLE
FRANK L. ERNST
ESTHER M. GENSER
JOHN KLASSEN
HARVEY A. McDIARMID
JAMES S. McGOEY
DONALD S. PATERSON
JOSEPH C. STANGL
GORDON B. WISWELL

*Member of the Executive Committee

SENIOR MANAGEMENT

- NEIL C.W. WOOD
President and Chief Executive Officer
- D.G. ALEXANDER
Manager Operations
- W.H. ARMERDING
*Vice President - Administration
and Regional Manager*
- R.D. BURWASH
Regional Manager Business Development
- L.R.C. ELLIOTT
Mortgage Manager Prairie Region
- R.H. LINDSAY
Assistant Treasurer and Controller
- J.E. PERKINS
Secretary and Treasurer

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